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OPEC: Trying to Be a Cartel

Price/Output Balance Still Elusive Goal

By DOUGLAS MARTIN

As the Organization of Petroleum Exporting Countries prepares to meet in Vienna on Friday, analysts are suggesting that the once-feared alliance of oil-producing nations has lost its pre-eminent role in setting world oil prices, perhaps irretrievably.

"OPEC may be facing the biggest crisis since it won control of the world oil market," says Daniel Yergin, an energy expert at Harvard University.

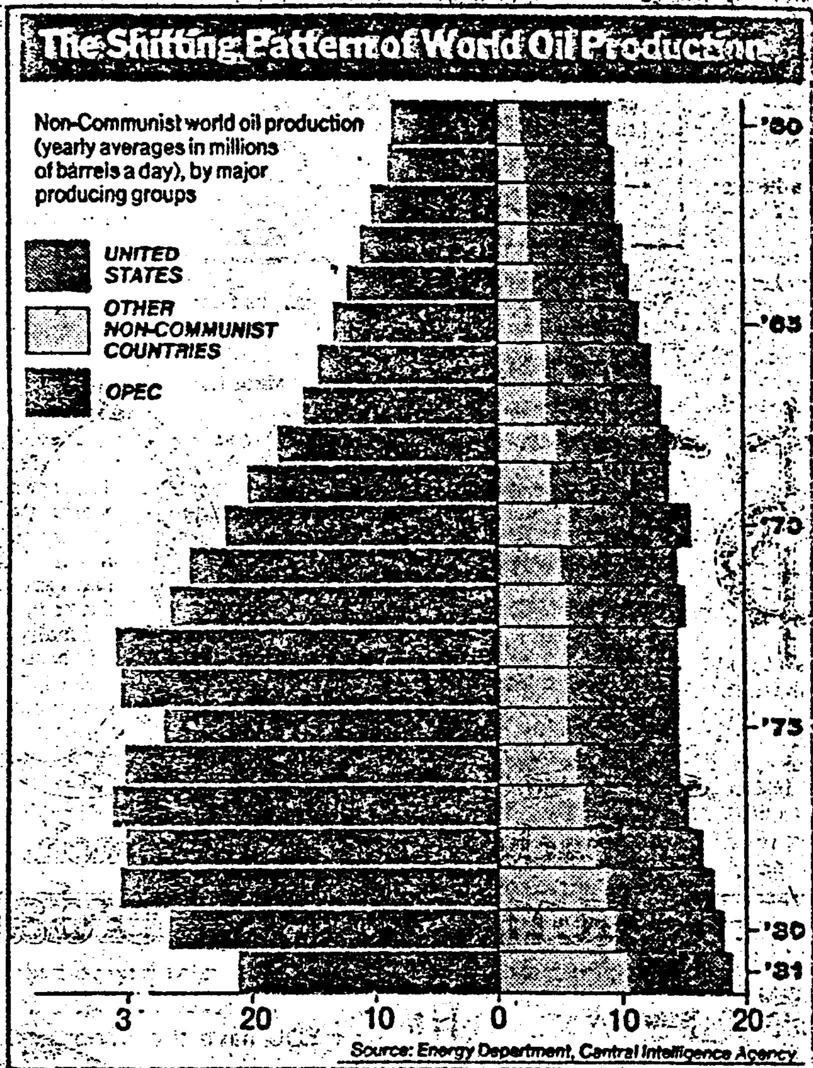
Others are even more emphatic. "OPEC is 100 percent dead," William Brown of the Hudson Institute asserts. "There's nothing to save them."

Mr. Brown and similar critics are referring to what OPEC is able to achieve as a would-be cartel, not to the influence of its individual member nations. These producing countries will continue to pump oil and be well compensated for it, regardless of the effectiveness of the organization that has bound them since 1960.

In essence, OPEC, which is producing less oil than in any year since 1969, is failing in its mission of setting and defending oil prices. The main reason is a sharp drop in petroleum demand that has caused a persistent worldwide oversupply.

This is driving prices substantially below OPEC's official rates, with many analysts now predicting that prices will continue to fall in inflation-adjusted terms, and perhaps in current dollars, for some years. If the OPEC price breaks — something that has not happened since the Arab oil embargo of 1973 — analysts such as Mr. Brown of the Hudson Institute suggest that it could drop to half its current level.

To be sure, there are others who warn against being so quick to count OPEC out. They caution that political disruptions in the Middle East could alter the world oil market almost overnight and, with it, OPEC's influence. Another oil embargo, for example, could bring stocks down quickly and ignite a scramble for supplies that could return OPEC to the driver's seat.



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But for now, most analysts agree, OPEC confronts sizable difficulties that are dramatized by the following evidence:

¶Largely because of heightened efficiency in the use of energy, worldwide oil production has fallen 17.3 percent from 1979, to 40.2 million barrels a day from 48.6 million, according to figures prepared by the Manufacturers Hanover Trust Company.

¶OPEC countries, considered the suppliers of last resort by consuming countries, have seen production fall by 31.4 percent during this period, and they now account for less than half of the production of the non-Communist world, compared with 64 percent three years ago.

¶The 13 countries, many of which are experiencing severe cash-flow problems because of declining oil sales, are using only three-quarters of their capacity, compared with 97 percent in 1979. This puts pressure on producers to increase sales by cutting prices.

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